

## Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 SSO-00 NSCE-00 USIE-00 INRE-00  
CIAE-00 PM-04 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01  
PRS-01 SP-02 SS-15 COME-00 TRSE-00 OMB-01 OPIC-03  
XMB-02 /063 W

-----271407Z 130812 /44

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FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC IMMEDIATE 0620

SECDEF WASHDC

INFO CJCS

CSA

CNO

CSAF

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E.O.11652: N/A

TAGS: MASS, EFIN, IR

SUBJ: 1976 TAX REFORM ACT--USG POLICY

REF: TEHRAN 11395 (DTG 151048Z NOV 76)

1. SUMMARY: PINCH ARISING FROM TAX REFORM ACT ON CERTAIN  
U.S. FIRMS DOING BUSINESS ABROAD WILL BE FELT IN FIRST HALF  
OF JANUARY. SINCE MOST SECURITY ASSISTANCE ACTIVITY IN IRAN  
UNDER FMS, MISSION BELIEVES IT IMPORTANT, FOR PURPOSES OF  
HERE AND ELSEWHERE, THAT IF U.S. TO BE INVOLVED IN TRYING TO  
RELIEVE PINCH IN WHATEVER DEGREE IT JUDGED USEFUL, IT SHOULD BE ON  
BASIS COMMON, COORDINATED APPROACH REFLECTING BROAD POLICY CON-  
SIDERATIONS RELEVANT TO THIS ISSUE. REQUEST IMMEDIATE GUIDANCE SO  
THAT ISSUE MAY BE RAISED WITH GOI FIRST WEEK IN JANUARY IN  
ACCORDANCE WITH USG POLICY. END SUMMARY.

2. IMPACT OF 1976 TAX REFORM ACT ON SOME U.S. FIRMS DOING BUSINESS  
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OVERSEAS WILL COME TO A HEAD EARLY IN 1977; SPECIFICALLY, BY  
JANUARY 15, AT WHICH TIME 80 PERCENT OF TAX OWING AS RESULT OF NEW  
LAW IS REQUIRED TO BE PAID. FIRMS THAT HAVE TAX EQUILIZATION  
PROVISIONS IN THEIR CONTRACTS ARE COVERED WITH RESPECT TO THEM-  
SELVES AND THEIR EMPLOYEES, LEAVING ASIDE QUESTION OF WHETHER NEW  
LAW FROM POLICY STANDPOINT IS IN U.S. INTEREST WITH RESPECT

TO U.S. FIRMS DOING BUSINESS ABROAD.

3. FIRMS WITHOUT TAX EQUILIZATION PROVISION IN THEIR CONTRACTS, FOR EXAMPLE BELL HELICOPTER INTERNATIONAL (BHI)--AND, WE UNDERSTAND, OTHERS SUCH AS GENERAL DYNAMICS, LITTON, AND LOCKHEED--ARE FACED WITH A MOST DIFFICULT SITUATION (SOME ASPECTS OF WHICH ARE OUTLINED IN REFTTEL). BHI HAS REQUESTED AVSCOM ASSISTANCE IN OBTAINING AN ADVANCE UNDERSTANDING FROM USG TO ALLOW COSTS WITH RESPECT TO ITS CONTRACT THAT WOULD PERMIT IT TO IMPLEMENT A "TAX ASSISTANCE POLICY" DESIGNED TO EASE THE BURDEN OF THE NEW LAW, ALLOW ITS EMPLOYEES TO AVOID A SUBSTANTIAL REDUCTION IN AFTER-TAX INCOME, AND THUS, NOT DECREASE THE CONTRACTOR'S ABILITY TO RECRUIT AND RETAIN ADEQUATE NUMBERS OF QUALIFIED PEOPLE. MISSION UNDERSTANDS THAT DEPARTMENT OF THE ARMY IS PREPARED TO SUPPORT THIS IF THE PROCUREMENT CONTRACTING OFFICER CONSIDERS IT ALLOWABLE.

4. THE QUESTION ARISES AS TO HOW TO PROVIDE TIMELY RELIEF TO BHI. NEW ACTION BY THE CONGRESS IS CLEARLY IMPOSSIBLE IN THE NEXT SEVERAL WEEKS, AND PROBABLY AT BEST WOULD TAKE MANY MONTHS. BHI COULD TAKE ITS OWN CASE TO THE GOI, BUT SINCE AN FMS ARRANGEMENT IS INVOLVED THE CONTRACTING PARTIES ARE THE GOI AND THE USG, WITH BHI A SUBCONTRACTOR OF THE LATTER. THEREFORE, IT MAY MAKE MORE SENSE FOR ANY DEMARCHE TO THE GOI TO BE MADE BY THE USG.

5. IF THE USG IS TO RAISE THE ISSUE WITH THE GOI, IT SEEMS TO US TO MAKE MORE SENSE TO TAKE UP ALL CASES INVOLVING FIRMS WITHOUT A TAX EQUILIZATION PROVISION IN THEIR CONTRACTS AT LIMITED OFFICIAL USE

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ONE TIME. IN THAT WAY THE GOI WOULD BE AWARE OF THE WHOLE PROBLEM AT ONCE, AND NOT BE CONFRONTED TIME AFTER TIME WITH THIS SAME QUESTION IN A WAY THAT IS ALMOST CERTAIN TO BE IRRITATING.

6. IN ORDER TO DO THIS, IT WILL BE NECESSARY FOR THE USG TO HAVE A COMMON POLICY ON THIS ISSUE. IN THAT REGARD WE GATHER THAT THE U.S. SERVICES HAVE DIFFERENT APPROACHES TO THE QUESTION. FOR EXAMPLE, THE U.S. NAVY PERMITS AN INDIVIDUAL'S EARNINGS FROM THE CONTRACTOR AS WELL AS OUTSIDE INCOME TO BE INCLUDED IN DETERMINING HIS TAX ASSISTANCE ALLOWANCES. U.S. AIR FORCE POLICY, ON THE OTHER HAND, CATEGORICALLY DENIES ALLOWING COSTS ASSOCIATED WITH DIRECT REIMBURSEMENT OF EMPLOYEE U.S. INCOME TAXES, BUT PERMITS INCREASES IN FRINGE BENEFITS TO COVER PROBLEM.

7. WE BELIEVE IT OF GREATEST IMPORTANCE TO HAVE A SINGLE USG POLICY THAT WILL, IN SOME MANNER, PROVIDE REASONABLE

REAL TIME RELIEF TO AFFECTED FIRMS, AND, AT SAME TIME,  
PROVIDE BASIS FOR AND LEND SUPPORT TO (RATHER THAN UNDER-  
CUTTING) LIKELIHOOD OF OBTAINING EARLIEST POSSIBLE  
CONGRESSIONAL RELIEF FROM PORTIONS OF 1976 TAX REFORM ACT  
WHICH JUDGED TO BE CONTRARY TO U.S. INTERESTS. WOULD  
APPRECIATE IMMEDIATE GUIDANCE ON USG POLICY IN THIS REGARD.  
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## Message Attributes

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